FISCAL NOTE

SB 38 - HB 27
SECOND EXTRAORDINARY SESSION

November 9, 1999

SUMMARY OF BILL: Amends Franchise tax law. Allows a taxpayer filing on a separate entity basis who does not keep its books and records using generally accepted accounting principles could compute net worth for franchise tax purposes using the same method used for federal income tax purposes. Requires a business entity to be classified in the same way that it is treated for federal income tax purposes. Each taxpayer is considered a separate business entity and must file its franchise tax return on that basis, except, for unitary groups of financial institutions and business entities that have been required or permitted to file franchise tax returns on a combined, consolidated or separate accounting basis. Qualified subsidiaries of S corporations and real estate investment trusts that are disregarded for federal income tax purposes and are included in the federal tax return filed by the owner would be disregarded for Tennessee franchise tax purposes and would be included in the franchise tax return filed by the owner. Adds a provision, that a taxpayer filing as a unitary group on a combined basis who does not keep its books and records using generally accepted accounting principles must compute the value of an interest in another taxpayer in accordance with the method used for federal tax purposes. Allows taxpayers, except for those filing as unitary groups on a combined basis, who do not keep their books and records using generally accepted accounting principles to compute property owned or used for purposes of the franchise tax minimum measure, in accordance with the method used for federal tax purposes. Included in the minimum measure would be property indirectly owned by the taxpayer. Specifies that a taxpayer's ownership share of Tennessee property owned or used by any exempt LLC, S corporation or partnership would be included in the property factor of the taxpayer's franchise tax apportionment formula.

ESTIMATED FISCAL IMPACT:

Decrease State Revenues - Exceeds $100,000

Increase State Expenditures - $53,000 One- Time

Estimate assumes the following:

- The total decrease in state revenues is unknown but is estimated to exceed $100,000.
- A one-time increase in state expenditures of approximately $53,000 for costs associated with notifying taxpayers of changes in the tax law.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James A. Davenport, Executive Director

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